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# Audits & Financial Responsibility

*This chapter describes the submission requirements for compliance audits and audited financial statements by foreign institutions, as well as the financial responsibility standards for foreign public institutions.*

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## COMPLIANCE AUDITS AND AUDITED FINANCIAL STATEMENTS

Generally, a school that participates in any Federal Student Aid program must have an independent auditor conduct annually an audit of the school's compliance with the laws and regulations that are applicable to the FSA programs in which the school participates (a compliance audit) and an audit of the school's financial statements (a financial statement audit).

However, by exercising the authority granted to it under the law, the Department has waived the audited financial statements submission requirements for foreign institutions that receive less than \$500,000 in Direct Loan Program funds in the preceding fiscal year, and modified the audited financial statements submission requirements for public and private nonprofit foreign institutions that receive less than \$10,000,000 in Direct Loan Program funds in the preceding fiscal year. Under this same authority, the Department has modified the compliance audit requirements for foreign institutions that receive less than \$500,000 in Direct Loan Program funds in the preceding fiscal year.

For additional information on Audited Financial Statements and Compliance Audits, see Volume 2, Chapter 4 of the *Federal Student Aid Handbook*.

## COMPLIANCE AUDITS

The compliance audit requirements for foreign institutions vary based upon whether the institution received less than \$500,000, or \$500,000 or more in Direct Loan Program funds during the institution's most recently completed fiscal year.

Foreign institutions that receive \$500,000 or more in Direct Loan Program funds during the institution's most recently completed fiscal year must submit annual compliance audits using the standard audit procedures for foreign institutions set out in the audit guide issued by the Department's Office of Inspector General.

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### Audited financial statements and compliance audits for foreign institutions

20 USC 1094(c)(1)(A)(i), 34 CFR 668.23(h)

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### No waiver of audit requirements

The law does not permit the waiver of audit requirements for foreign institutions that receive \$500,000 or more in Direct Loan funding.

### OIG Foreign School Audit Guide

The OIG Foreign School Audit Guide is available at <http://www2.ed.gov/about/offices/list/oig/nonfed/sfa.html>. The Foreign School Audit Guide has not been updated since 2002 and does not reflect the changes to regulations and guidance that have been made since that time. An independent public accountant performing an audit of a foreign institution must be familiar with the current regulations and guidance applicable for foreign institutions, and must audit the foreign institution for compliance with those current requirements.

Foreign institutions that receive less than \$500,000 in Direct Loan Program funds during the institution's most recently completed fiscal year are allowed to submit compliance audits under an alternative compliance audit performed in accordance with the audit guide from the Department's Office of Inspector General. The institution must submit the compliance audit annually, with one exception. A foreign institution may submit a cumulative compliance audit once every three years instead of annually, if the institution

- Received less than \$500,000 U.S. in Direct Loan Program funds for its most recently completed fiscal year,
- Is fully certified, and
- Has timely submitted and had accepted compliance audits for two consecutive fiscal years, and has had no history of late submissions since then.

An alternative compliance audit is an "agreed-upon procedures attestation engagement" which is limited to specific procedures performed on a particular subject matter, wherein the auditors are not required to express an opinion of the reliability of the institution's assertions concerning its compliance with the requirements. The standard compliance audit, by contrast, is performed as a more extensive "examination-level attestation engagement."

When an institution submits a standard compliance audit because it received more than \$500,000 in Direct Loan Program funds during the institution's most recently completed fiscal year, the institution must also submit any alternative compliance audit or audits for preceding years that were required for any preceding fiscal year or years in which the foreign institution received less than \$500,000 in Direct Loan Program funds.

The Department may require a foreign institution to submit a compliance audit performed at a higher level of engagement, and may require the compliance audit to be submitted annually, by issuing a letter to the foreign institution that identifies problems with its administrative capability or compliance reporting.

A foreign institution's compliance audit must be done on a fiscal year basis, and all Direct Loan Program transactions that have occurred since the period covered by the institution's last compliance audit must be covered. For institutions that are permitted to submit one compliance audit every three years, this requirement ensures that the compliance audit is cumulative.

An institution must submit the compliance audit no later than six months after the last day of the institution's preceding fiscal year.

### Compliance Audit Requirements for Foreign Institutions

Direct Loan funds received during most recent fiscal year	Public and Private Nonprofit Institutions	For-Profit Institutions
\$500,000+	Standard compliance audit, submitted annually	Standard compliance audit, submitted annually
Less than \$500,000	Alternative compliance audit, submitted annually	
	Alternative compliance audit may cover up to 3 fiscal years if: <ul style="list-style-type: none"><li>• Received less than \$500,000 in most recent fiscal year period</li><li>• Fully certified</li><li>• Timely submitted and had accepted 2 most recent audits and no late submissions since</li><li>• Notified by the Department</li></ul>	
Note: If the Department identifies problems with a foreign institution's administrative capability or compliance reporting, it may require a foreign institution to submit a compliance audit performed at a higher level of engagement and may require the compliance audit to be submitted annually.		

## AUDITED FINANCIAL STATEMENTS

Generally, an institution's audited financial statements must be submitted to the Department annually, and must be prepared on an accrual basis in accordance with U.S. generally accepted accounting principles (U.S. GAAP), and audited by an independent auditor in accordance with U.S. generally accepted government auditing standards (U.S. GAGAS) and other guidance contained in the Office of Management and Budget Circular A-133 and A-128 regarding audits of States, Local Government and Non-Profit Organizations, or in audit guides developed by, and available from, the Department of Education's Office of Inspector General, whichever is applicable.

However, for a public or nonprofit foreign institution that received less than \$500,000 in Direct Loan Program funds during the institution's most recently completed fiscal year, the audited financial statements submission is waived, unless the institution is in its initial provisional period of participation and received Direct Loan Program funds during that year, in which case the institution must submit, in English, audited financial statements prepared in accordance with the generally accepted accounting principles of the institution's home country.

For a public or nonprofit foreign institution that received at least \$500,000 but less than \$3,000,000 in Direct Loan Program funds during its most recently completed fiscal year, the institution may submit for that year, in English, audited financial statements prepared in accordance with the generally accepted accounting principles of the institution's home country in lieu of financial statements prepared in accordance with U.S. GAAP/U.S. GAGAS.

For a public or nonprofit foreign institution that received at least \$3,000,000 but less than \$10,000,000 in Direct Loan Program funds during its most recently completed fiscal year, the institution must submit, in English, every three years two sets of audited financial statements, one prepared in accordance with U.S. GAAP/U.S. GAGAS, and one prepared in accordance with the institution's home country accounting standards.. However, for the two years in between, the institution may submit, in English, audited financial statements prepared in accordance with the generally accepted accounting principles of the institution's home country in lieu of financial statements prepared in accordance with U.S. GAAP/U.S. GAGAS.

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**Audit submission address:**

U.S. Department of Education  
Federal Student Aid  
School Eligibility Channel  
Document Receipt and Control Center  
830 First Street, NE, Room 7111  
Washington, D.C. 20202-5340

Public or nonprofit foreign institutions that receive \$10,000,000 or more in Direct Loan Program funds during the institution's most recently completed fiscal year, and all for-profit foreign institutions must submit, in English, audited financial statements prepared in accordance with the generally accepted accounting principles of both the institution's home country and U.S. GAAP/U.S. GAGAS. The Department may require a foreign institution to submit audited financial statements in the manner it specifies by issuing a letter to the foreign institution that identifies problems with its financial condition or financial reporting.

Audited financial statements must be submitted within six months of the last fiscal year that the audit is required to cover.

### Audited Financial Statements Submission Requirements for Foreign Institutions

Direct Loan funds received during fiscal year	Public and Private Nonprofit Institutions		For-profit institutions
	Home country GAAP	U.S. GAAP & GAGAS	Home country GAAP and U.S. GAAP & GAGAS (both must be fulfilled)
\$10,000,000	Required annually, in English	Required annually, in English	Required annually, in English
\$3,000,000-\$9,999,999	Required annually, in English	Required annually, in English; may omit for 2 consecutive years after U.S. GAAP & GAGAS audit	
\$500,000-\$2,999,999	Required annually, in English	Not required	
Less than \$500,000	Not required, except during initial certification	Not required	

Note: If the Department identifies problems with a foreign institution's financial condition or financial reporting, it may require the institution to submit audited financial statements in a manner specified by the Department.

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**Financial responsibility for foreign public institutions**

34 CFR 668.171(c)(2)

**FINANCIAL RESPONSIBILITY FOR FOREIGN PUBLIC INSTITUTIONS**

All foreign institutions must demonstrate that they are financially responsible in accordance with the requirements in 34 CFR 668 subpart L, or 34 CFR 668.15 for determinations related to changes in ownership. The requirements are the same for foreign institutions as they are for domestic institutions, except that they include a specific provision for foreign public institutions that is comparable to provisions for domestic public institutions.

The Department considers a foreign public institution to be financially responsible if the institution:

- Notifies the Secretary that it is designated as a public institution by the country or other government entity that has the legal authority to make that designation,
- Provides documentation from an official of that country or other government entity confirming that the institution is a public institution and is backed by the full faith and credit of the country or other government entity; and
- Is not in violation of any past performance requirement under 34 CFR 668.174.

If a government entity provides full faith and credit backing, the entity will be held liable for any Direct Loan Program liabilities that are not paid by the institution.

If a foreign public institution does not meet these requirements, financial responsibility is determined under the general financial responsibility standards, including the application of the equity, primary reserve, and net income ratios. For complete information on the financial responsibility requirements, see Volume 2, Chapter 4 of the Federal Student Aid Handbook.

Although the full faith and credit provision provides an alternate way of meeting the financial responsibility standards for foreign public institutions, it does not excuse the institution from the required submission of audited financial statements (see *Audited Financial Statements* above).